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STONEHAM DRILLING TRUST
2004 ANNUAL REPORT

CORPORATE PROFILE

Stoneham Drilling Trust is an income trust that provides contract drilling services to oil and natural gas exploration and production companies operating in western Canada. With its modern, innovative fleet of eight telescopic drilling rigs and three additional rigs currently under construction, Stoneham is an industry leader in operational performance and rig utilization. Stoneham began trading on the TSX on January 6, 2005 under the symbol SDG.UN. The Trust pays monthly cash distributions to unitholders.

MISSION STATEMENT

We will create an environment for our people to excel with safety and integrity as part of our culture, build strong relationships by providing quality and value and deliver industry-leading operational performance, rig utilization and returns.

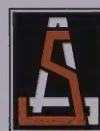


INVESTMENT ATTRIBUTES

- *Industry leader in operational performance and rig utilization*
- *Experienced and proven management*
- *Innovators in rig design*
- *Attractive industry fundamentals*
- *Significant growth opportunities*

TABLE OF CONTENTS

Milestones.....	1
President's Message	3
The Stoneham Team	7
Drilling Operations.....	8
Safety, Health and Environment	12
Governance.....	14
Trust Structure	15
Management's Discussion and Analysis.....	17
Management's Report.....	27
Auditors' Report.....	28
Financial Statements.....	29
Notes to Financial Statements	32
Trust Information	41



STONEHAM
DRILLING TRUST

TSX symbol: SDG.UN

MILESTONES: EXECUTING A PROGRESSIVE STRATEGY

Our business plan was conceived on the strength of early client relationships. Our focus is on creating value by responding effectively to client needs, maintaining efficiency and providing excellent customer service. Our actions are guided by a corporate culture that highly values quality, integrity, safety, performance and innovation.

2000

- Company formed as Seamans Drilling Inc., to meet identified client demand
- Developed business plan
- Assembled management team
- Raised financing, began construction of Rigs 1, 2 and 3
- Deployed Rig 1 in December

2001

- Deployed Rig 2 in January and Rig 3 in February
- Developed operational systems and processes
- Entered into long-term contracts to supply three additional drilling rigs
- Constructed and deployed Rigs 4, 5 and 6

2002

- Maintained focus on operational excellence
- Further developed trust business model and prepared for growth
- Created Quad Pad, proprietary rig moving system

2003

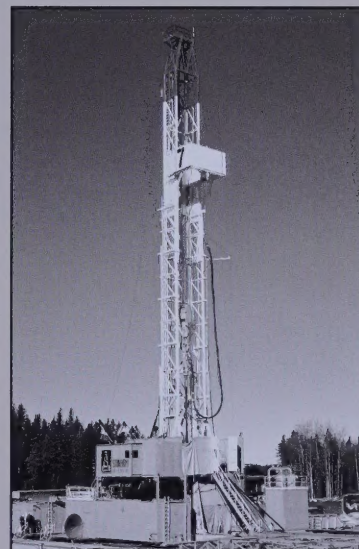
- Deployed Quad Pad technology
- Converted to private income trust
- Rebranded company as Stoneham Drilling Inc.

2004

- Deployed Octi Pad, an evolution of the Quad Pad
- Developed telescopic triple technology
- Began construction of Rigs 7 and 8
- Prepared for initial public offering

2005

- Completed initial public offering
- SDG.UN began trading on TSX
- Commenced monthly distributions of \$0.125 per trust unit
- Deployed Rigs 7 and 8, first telescopic triples in Canada
- Accelerated construction program of Rigs 9, 10 and 11 to satisfy customer demand
- Completed follow-on equity financing to partially fund construction of Rigs 9, 10 and 11



Rig 7 – first telescopic triple in Canada

INNOVATION AND PERFORMANCE BY DESIGN

PEOPLE

Assemble an experienced, dedicated team, responsible to a knowledgeable and dynamic board, to drive industry-leading performance.

DESIGN

Adapt existing, proven technology to create improved designs and implement them with confidence and skill to benefit our valued clients.

RESPONSIBILITY

Respect the safety and well-being of our team, continuing to motivate, train and support while valuing the environment and our stakeholders.

PERFORMANCE

Produce solutions and results to yield value for our stakeholders, stability for our employees and growth opportunities for our business.



PRESIDENT'S MESSAGE

It affords me great pleasure to introduce the first annual report of Stoneham Drilling Trust.

On January 6, 2005, we completed a successful initial public offering and our units began trading on the Toronto Stock Exchange. While we are a new entry as a public entity, we have decades of experience in the contract drilling business. The idea for Stoneham (formerly Seamans Drilling Inc.) was conceived in 1999. With the encouragement of clients who continue to support us today, we raised private capital to construct our first three telescopic double drilling rigs. The rigs were built to our specifications and designed to suit the specific needs of our clients. Our first rig became operational in late 2000, followed by Rigs 2 and 3 in early 2001.

Since then, we have progressively executed our business plan, adding Rigs 4, 5, and 6 in 2001 to meet growing client demand. We began preparing ourselves in 2002 for conversion from a corporate entity to a trust structure. On July 30, 2003, Stoneham made the conversion to a private income trust in anticipation of becoming a public entity when the time was right. That opportunity arrived in late 2004, as we elected to raise capital in the public equity market to finance the construction of Rigs 7 and 8, the first telescopic triple drilling rigs in Canada. The success of our IPO and the follow-on equity offering in March to finance construction of Rigs 9, 10 and 11, are a tribute to the five years spent building the business and solidifying client relationships.

Our entire fleet is less than five years old, making our rigs more efficient, requiring less maintenance and incorporating operational and safety advantages over older-style rigs. Newer, more efficient equipment attracts and helps to retain qualified rig crews. By design, all rigs share substantial similarities, which enables us to deploy our workforce flexibly and minimize costs for inventory and spare parts. We have incorporated a number of design elements that improve the operating characteristics of our rigs, including the ability to move rigs in fewer loads and prepare for drilling operations in a shorter period of time. These characteristics provide cost savings to our customers, while affording them increased operating flexibility.

We are a customer-driven organization and pride ourselves on providing quality and value to clients who value these attributes. Our construction programs are driven by the needs of our clients. Our ability to understand each of our client's specific needs and then provide an innovative, practical and cost-effective solution to meet those needs is vital for our future growth.

Client performance and client satisfaction are important objectives throughout our organization. We are strategically aligned with the top ranked, quality minded and most active oil and gas producers in Canada as clients, including Talisman Energy Inc., EnCana Corporation, Burlington Resources Inc., Real Resources Inc. and Mancal Energy Inc. These companies maintain high operating standards and consistent activity levels year-round, which results in higher rig utilization rates. Our above-average rig utilization rate over the past five years is a testament to the value and satisfaction we strive to provide to our clients.



Bruce Jones
President & CEO

Our ability to understand our clients' needs and provide innovative and cost-effective solutions is vital for our future growth.

By consistently delivering high operational performance, we have developed strong client relationships, yielding high rig utilization rates.

Our operations are presently conducted exclusively in the Western Canadian Sedimentary Basin, which includes portions of British Columbia, Alberta and Saskatchewan and the Northwest Territories. This basin is one of the largest oil and gas exploration and producing regions in North America. The average production rate of natural gas in the basin has been declining over the past decade, while demand for natural gas has been increasing. As a result, drilling activity has increased in order to maintain current production levels.

Deeper drilling is also on the rise. Substantial potential exists at depths of 2,000 to 4,000 metres and numerous exploration and production companies are currently pursuing active drilling programs targeting reserves at these depths.

The market demand for drilling rigs, equipment and services is determined by the amount of capital allocated for reserve development or replacement by exploration and production companies. The total capital available is influenced by commodity prices and the ability to finance capital programs. Fundamental supply and demand factors have been responsible for the strong oil and gas prices experienced over the last five years, which is driving exploration in the basin and attracting new oil and gas entrants to the market. These market forces, in combination with consumer demand for oil and gas, are key factors in determining the number of wells that will be drilled.

An environment of continued high commodity prices and low interest rates has increased producers' projected cash flows and should provide for increased activity in 2005. Drilling dayrates are expected to remain strong as higher activity levels will increase demand for drilling services.

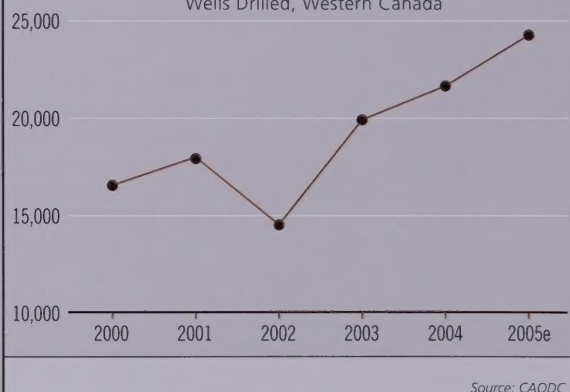
Stoneham's rigs are among the newest and most efficient in the industry. The characteristics of our fleet position us as a contractor of choice as the demand for medium-deep drilling continues. By consistently delivering high operational performance, we have developed strong client relationships, yielding high rig utilization rates. We intend to continue building rigs and adding drilling equipment to our fleet based on market conditions and the needs of our clients. We will also continue to develop and implement technological advancements and equipment enhancements to our rig design and operations to improve operating efficiencies and ensure that we maintain and grow our market position.

STONEHAM PERFORMANCE
Historical Rig Utilization



In 2004, we achieved a rig utilization rate of 73%, compared with the industry average of 53% (as reported by the Canadian Association of Oilwell Drilling Contractors).

RECORD DRILLING ACTIVITY
Wells Drilled, Western Canada



The Canadian Association of Oilwell Drilling Contractors estimates that 24,205 wells will be drilled in 2005, exceeding the record activity levels set in 2003 and 2004.

DEEP DRILLING ON THE RISE

Wells Drilled Over 3,050 metres



Source: Nickles Energy Group

Statistics compiled by Nickles Energy Group illustrate the dramatic increase in the number of deeper wells (over 3,050 metres) over the last two years.

Our focus is on the medium-deep drilling areas of the Western Canadian Sedimentary Basin.

Our growth strategy will focus on developing customer and geographic diversity. Construction of additional rigs will enable us to expand our customer base. As we grow, we will be able to operate in a broader number of areas, reducing the potential impact of regional conditions or drilling activities on our operations. While we will consider the acquisition of existing rigs or drilling companies, such acquisitions must fit with our existing portfolio and create additional value.

In closing, I would like to acknowledge our employees, who are clearly our greatest asset. Each member of our management team brings a wealth of experience and energy to their role and we are privileged to count among our employees some of the most experienced and skilled workers in the field. We thank our employees for their

commitment to safety and performance, especially given the demands of current high activity levels. We have a higher-than-average retention and return rate and we will continue to earn this loyalty by fostering a safe and rewarding work environment where doing the right thing is more important than just doing things right.

To our clients and partners, thank you for your support and for allowing us to work with you to achieve your goals. We will continue to anticipate and respond to your needs, providing excellent customer service and maintaining efficiency with our modern rig fleet.

To our unitholders, thank you for the confidence you have expressed in us through the IPO and subsequent equity offering. We will strive to provide you with regular cash distributions, attractive returns and a satisfying long-term investment relationship.

To our board of directors, thank you for your wise counsel and strategic guidance and for your significant contribution in formalizing our code of business conduct and ethics and establishing effective governance practices befitting a responsible publicly-traded income trust.

We believe that when values are clear, decisions are easy. We have worked hard to establish a culture that highly values quality, integrity, and innovation. To those on the outside, our clients, quality is the product. To those on the inside, our employees, quality is the people.

Bruce W. Jones

President and Chief Executive Officer

April 22, 2005



THE STONEHAM TEAM



BRUCE JONES President and Chief Executive Officer

Bruce is the founder of Stoneham. He provides vision and leadership in the design and implementation of strategic, business and operational plans. Bruce has over 20 years of experience in the fabrication, oilfield service and oil and gas drilling sectors. He is a Director of the Canadian Association of Oilwell Drilling Contractors (CAODC), and serves on numerous CAODC committees, most notably as the Presiding Officer of the Provincial Apprenticeship Committee for the Rig Technician Program with Alberta Learning.



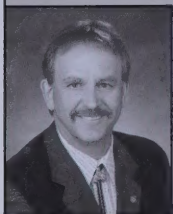
JACK SMART CA, Chief Financial Officer

Jack is a Chartered Accountant with more than 25 years of experience in the oilfield services and drilling industries. He has a Bachelor of Commerce Degree from the University of Saskatchewan and received his CA designation in 1972. Jack joined Stoneham in 2001 and is responsible for overall financial management and planning.



CELESTE CHAPMAN CA, Controller

Celeste received her Chartered Accountant designation in 2000. She joined Stoneham as Controller in March 2005 and is responsible for financial reporting, treasury, insurance and taxes.



STEVE MACKENZIE Safety Supervisor

Steve has over 20 years of experience as a safety professional. He started working with Stoneham in 2000. His areas of responsibilities include safety program development and implementation, inspections, investigations and coaching.

BLAIR WAGNER Operations Manager

Blair has over 20 years of oilfield experience as a Driller and a Rig Manager. Blair joined Stoneham in 2000 and was promoted to Operations Manager in 2002. He is responsible for the day-to-day operations of Stoneham's rig fleet and operating personnel.



TOM FELLOWS CMA, Director, Sales and Marketing

Tom has over 25 years of experience in the areas of finance, sales and marketing in the contract drilling industry. He joined Stoneham in December 2004, and is responsible for marketing the Stoneham rig fleet.



RON WADDELL Operations Superintendent

Ron has over 25 years of oilfield experience. He first joined Stoneham in 2002 as a rig manager. In 2004, he became Operations Superintendent. Ron is primarily responsible for quality control at the field level.



DRILLING OPERATIONS

Stoneham's equipment is versatile and in high demand for multiple disciplines. Our rigs are fully capable of carrying out all types of drilling activity, including directional, horizontal and under-balanced drilling and re-entry work. They are designed to perform under extreme weather conditions, as drilling operations run 24 hours a day, seven days a week, 365 days a year.

Generally, land drilling rigs are configured to handle either one, two or three joints of drill pipe at one time and are categorized as singles, doubles or triples, respectively. Single rigs are typically used for the shallowest drilling projects (less than 1,600 metres in depth) and double rigs are typically used on wells in the 1,600 to 2,400-metre depth range. Heavy doubles, like Rigs 1 through 6, are most commonly used for drilling projects in the 2,400 to 3,200-metre depth range, while triples are usually used on projects deeper than 2,600 metres.

All of our initial six drilling rigs are modern step-down telescopic double drilling rigs, meaning that they are configured to handle two joints of 30-foot length drill pipe at one time. This makes them suitable for medium-deep drilling (from depths of 2,000 metres to 4,000 metres), and each of Rigs 1 through 6 has a rated capacity of 3,000 metres.

The streamlined design of our fleet enables us to maximize utilization of the rigs and related equipment.



Rig 7 – Wild River, Alberta

Rig #	Type	Drawworks	Horsepower	Completion Date	Rated Hook Load Capacity	Rated Depth in Metres
1	Step-down telescopic double	TSM 7000	700	December 2000	320,000#	3,000
2	Step-down telescopic double	TSM 7000	700	January 2001	320,000#	3,000
3	Step-down telescopic double	TSM 7000	700	February 2001	320,000#	3,000
4	Step-down telescopic double	TSM 7000	700	November 2001	320,000#	3,000
5	Step-down telescopic double	TSM 7000	700	December 2001	320,000#	3,000
6	Step-down telescopic double	TSM 7000	700	December 2001	320,000#	3,000
7	Step-down telescopic triple	TSM 1200	1,200	February 2005	500,000#	4,000+
8	Step-down telescopic triple	TSM 1200	1,200	March 2005	500,000#	4,000+
9	Step-down telescopic double	TSM 850	850	under construction	375,000#	3,500
10	Step-down telescopic triple	TSM 1200	1,200	under construction	500,000#	4,000+
11	Step-down telescopic triple	TSM 1200	1,200	under construction	500,000#	4,000+

INNOVATORS IN RIG DESIGN

We have significant experience in the construction and development of new drilling rigs. By acting as general contractor for all new builds, we are able to maintain stringent quality controls.

Our rig design was developed internally and incorporates a number of design elements that increase operating efficiency. The modifications we make allow us to maintain the lead through performance gains while reducing capital and operating costs. Some of these innovations include:

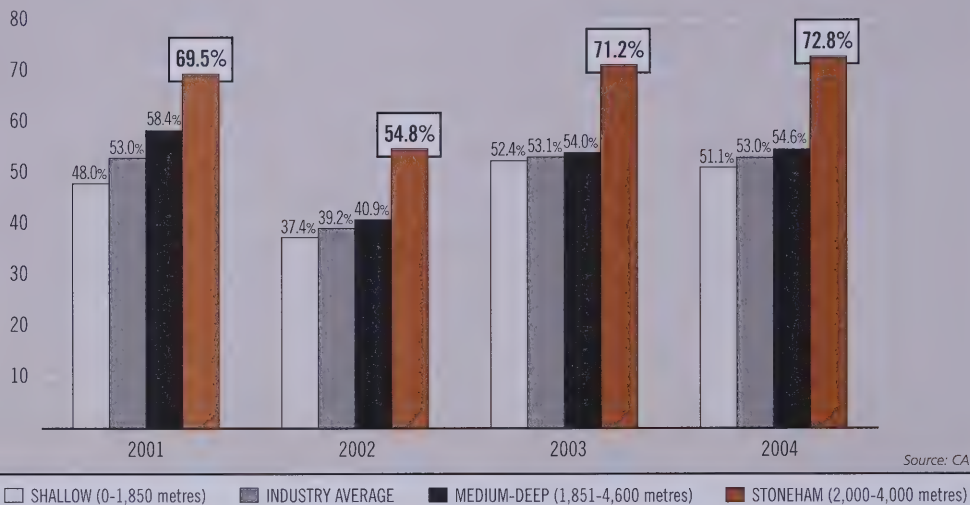
- Developed Quad Pad technology (proprietary rig moving system)
- Constructed first telescopic triple in Canada, which moves and rigs up in under 40% of the time of rigs of comparable size and rating
- Incorporation of a chemical shearer that mixes and shears drilling fluids, resulting in savings on mud products
- Introduced drilling technology and design modifications that have been widely adopted by industry as standard practice

Our triples, Rigs 7 and 8, share substantial similarities with Rigs 1 through 6. This streamlined design enables us to maximize utilization of the rigs and related equipment and reduce the level of inventory necessary to carry out operations. Our rigs can move and prepare for drilling operations in a shorter period of time, providing substantial cost savings to our customers. Our triples rig up or down in approximately six to 12 hours and move in 19 loads without drill pipe compared with older triple rigs that move in approximately 35 loads.



Efficient design reduces rig-up time

RIG UTILIZATION by DRILLING DEPTH



This chart depicts industry rig utilization rates by drilling depth over the past four years. The industry average includes all drilling depths. Stoneham competes in the medium-deep segment of the market, and has consistently outperformed the industry average and our market segment since inception.

We are focused on the medium-deep drilling areas of the Western Canadian Sedimentary Basin, which is the market segment that has the highest utilization rate for contract drilling services. All of our rigs are designed to drill to depths of 2,000 to 4,000 metres. To allow for deeper drilling, Rigs 7 and 8 feature TSM 1200 drawworks (1,200 horsepower), hook loads of 222,222 decaNewtons (500,000 pounds) and 1,600 horsepower triplex mud pumps. Rigs 7 and 8 have a rated depth capacity of 4,000+ metres, with five inch drill pipe and 4,750 metres with four and one-half inch drill pipe. Each section of drill pipe is 45 feet long instead of the standard 30 feet, which allows operations to proceed with fewer drilling connections. This innovative feature enables us to compete more cost-effectively in a broader range of the total drilling market.

In 2004, Stoneham ranked seventh in the industry for wells drilled per rig, as reported by Nickles Energy Group. With six rigs, we drilled 128 wells with an average depth per well of 2,300 metres. The total number of metres drilled was 294,723 metres – nearly 295 kilometres of hole.

Rig Utilization	2001	2002	2003	2004
Stoneham operating days (1)	819	1, 199	1,560	1,599
Stoneham ending number of drilling rigs	6 (2)	6	6	6
Stoneham rig utilization (1) (3)	69.5%	54.8%	71.2%	72.8%
Industry average rig utilization (1) (3)	53.0%	39.2%	53.1%	53.0%

Notes:

- (1) Source: CAODC.
- (2) Rigs 4, 5 and 6 commenced operations at various times in December 2001.
- (3) Utilization represents the number of operating days for a period divided by the number of calendar days multiplied by the number of rigs for that same interval.

QUAD PAD/OCTI PAD (PATENT PENDING)

Stoneham's proprietary rig moving system for use in pad drilling is a good example of the way we look for innovative ways to improve efficiency.

Known as the Quad Pad (i.e., four wells) and the Octi Pad (i.e., eight wells), this technology was developed in partnership with EnCana Corporation, with whom we share the patent application. The design allows the contractor to drill up to four wells (Quad Pad) or eight wells (Octi Pad) from one surface location using only hydraulic rams to reposition the rig. The benefits of this technology innovation include:

- Uses existing industry-standard rig design for accessibility and competitiveness
- Allows the drilling of up to eight wells moving only substructure
- Well-suited for heavy oil and coal bed methane projects where multiple wells from one location are desired
- Eliminates the need for and cost of specialized rig moving equipment
- Increases flexibility to move anytime, 24 hours a day, seven days a week
- Provides stable platform for drilling rig on soft locations
- Reduces repositioning time to approximately 45 minutes, compared with 12 to 35 hours
- Eliminates the need to remove drill pipe from a standing position in the derrick while moving between well centres. At 3,000-metre depths, the savings to the client are 12 + hours
- Reduces clients' drilling costs by as much as 17%



Rig 3 rigging up on Octi Pad – Pelican Lake, Alberta

SAFETY, HEALTH AND ENVIRONMENT

Our drilling rigs operate 24/7, 365 days a year, under all environmental conditions. But the health and safety of our personnel takes priority over all other operations. In addition to our desire to protect the wellbeing of our employees, a safe workplace increases employee efficiency and prevents costly downtime due to injuries. We foster a safe work environment through our corporate culture and a proactive safety program, which includes training for employees, regular maintenance of equipment and routine safety inspections and audits.

The success of our program stems from the careful selection of employees. By focusing on safety and providing newer, efficient equipment, we can attract the industry's best people. We believe that crew retention is key to improving safety and we strive to maintain our reputation as an attractive employer. We provide a positive work environment where quality is rewarded. The necessary training, tools, supervision and encouragement to succeed are all part of the package; we don't tell our people how not to do things, we help them to do things right.

At Stoneham, we believe our employees are not only our greatest assets, they are Stoneham. Our success depends on all of us working together. The best results come through a coordinated effort, mutual understanding, respect and consideration for all those involved.

The Stoneham management team participates in monthly Safety Committee meetings and regularly visits the worksites to meet with personnel and foster our values and corporate culture. Management and Supervisors hold regular on-site safety and training meetings to ensure that all personnel are kept informed and that everyone continues to work toward exceeding all applicable regulatory and safety requirements.

We also conduct an annual external safety audit and support the Partnerships in Health and Safety program established by Alberta Human Resources and Employment. The program fosters a culture where health and safety is an integral part of the workplace. When employers and workers voluntarily build effective health and safety programs in their own workplaces, the human and financial costs of workplace injuries and illnesses will be reduced. In addition, supporting health and safety programs leads to larger reductions in injuries than regulatory compliance alone. A Certificate of Recognition (COR) is given to employers who develop health and safety management programs that meet established standards, including an extensive, external audit. Our initial audit was conducted in 2003 and we received the highest score for a first-time COR applicant as marked by our external auditor. We continue to support the Partnerships program which requires an external audit every three years. In the interim years, we conduct external maintenance audits as a proactive approach to ensure that our safety standards remain high.



24/7/365 – Our crews work in all operating conditions



STONEHAM TARGET ZERO INITIATIVE

The Target Zero initiative strives for an incident-free oil industry workplace. At Stoneham, we believe that safety is the result when all aspects of the organization's attentions are aimed in a positive direction. We have taken this objective several steps further to include: Target Zero for Safety, Target Zero for Failures, Target Zero for Downtime, Target Zero for Disrespect and Target Zero for Complacency.

ENVIRONMENTAL

We support and encourage efforts to minimize the impact of our operations on the environment and are responsive to the concerns of government, the general public and our employees regarding our activities. Environmental protection measures have been incorporated into our regular procedures for equipment, site inspections and waste disposal and we promote the use of environmentally friendly products.

Our operating practices comply with provincial standards for oilfield waste management. These standards are communicated to our personnel to ensure that they are aware of the standards as well as our expectations with respect to the environment.

APPRENTICESHIP INITIATIVE

On October 5, 2004, the Government of Alberta designated "Rig Technician" as a compulsory certification trade. This designation applies to the positions of Motorhand, Derrickhand and Driller on drilling rigs in Alberta. The program will be phased in over a three-year period, beginning with the registration of Motorhands in the spring of 2005.

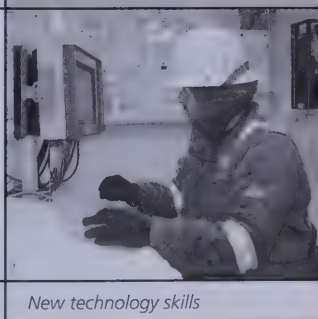
Alberta's drilling industry is the first in the world to implement compulsory trade certification for drilling occupations. The CAODC believes that by establishing the Rig Technician trade, the drilling industry will:

- establish a career path and formalize a training program for motorhands, derrickhands and drillers;
- communicate to the public that rig employees are trained, knowledgeable tradespeople; and
- make the job site a safer place.

Today's rigs are highly technical work environments that demand a variety of skills. To meet this demand, drilling industry employees and management have developed high-quality training standards for the Apprenticeship Program. Apprenticeship training provides a combination of on-the-job training and technical (classroom) training. All apprenticeship programs have an in-class component offered through technical colleges. There, apprentices are given background knowledge that will assist them in their on-the-job training. This background knowledge will help the apprentice understand the "why" behind many of their daily tasks.

Stoneham Drilling is proud to support the Apprenticeship Initiative.

Article reproduced courtesy of the Canadian Association of Oilwell Drilling Contractors (www.caodc.ca).



New technology skills



Hands-on training

GOVERNANCE

The Declaration of Trust is the governing document of the Trust. Valiant Trust Company is the Trustee and also acts as the Registrar for the trust units. Certain powers, however, have been delegated to Stoneham Administration Inc. including responsibility for the general administration and management of the day to day affairs and operations of the Trust. The business of Stoneham is conducted by Stoneham Drilling Limited Partnership, of which Stoneham Drilling Inc. is the General Partner, responsible for the management of the Partnership's business and affairs. No management fees are payable to external managers.

Stoneham Administration Inc. and Stoneham Drilling Inc. are governed by separate boards of directors consisting of a majority of independent directors. Both companies are wholly-owned subsidiaries of the Trust and the Trust's unitholders nominate the directors at each annual meeting. Stoneham Administration Inc. votes the shares of each company as directed by the unitholders of the Trust.

The following discussion applies generally to the governance structures of both Stoneham Administration Inc. and Stoneham Drilling Inc., collectively referred to as Stoneham.

The board of directors functions according to a written charter that sets out general and specific responsibilities. In broad terms, it defines the board's stewardship role in financial planning and reporting, strategic planning, risk management and mitigation, senior management determination, communication planning and internal control integrity. In addition, Stoneham has written terms of reference for its Chairman of the Board (as lead director) and directors that describe and communicate performance expectations and provide a benchmark for director performance, assessment and evaluation.

The board of directors of Stoneham Drilling Inc. has an Audit Committee, a Compensation Committee and a Governance Committee. The board of directors of Stoneham Administration Inc. has an Audit Committee and a Governance and Compensation Committee. Each committee has a written charter approved by the board of directors and all committee members are independent directors.

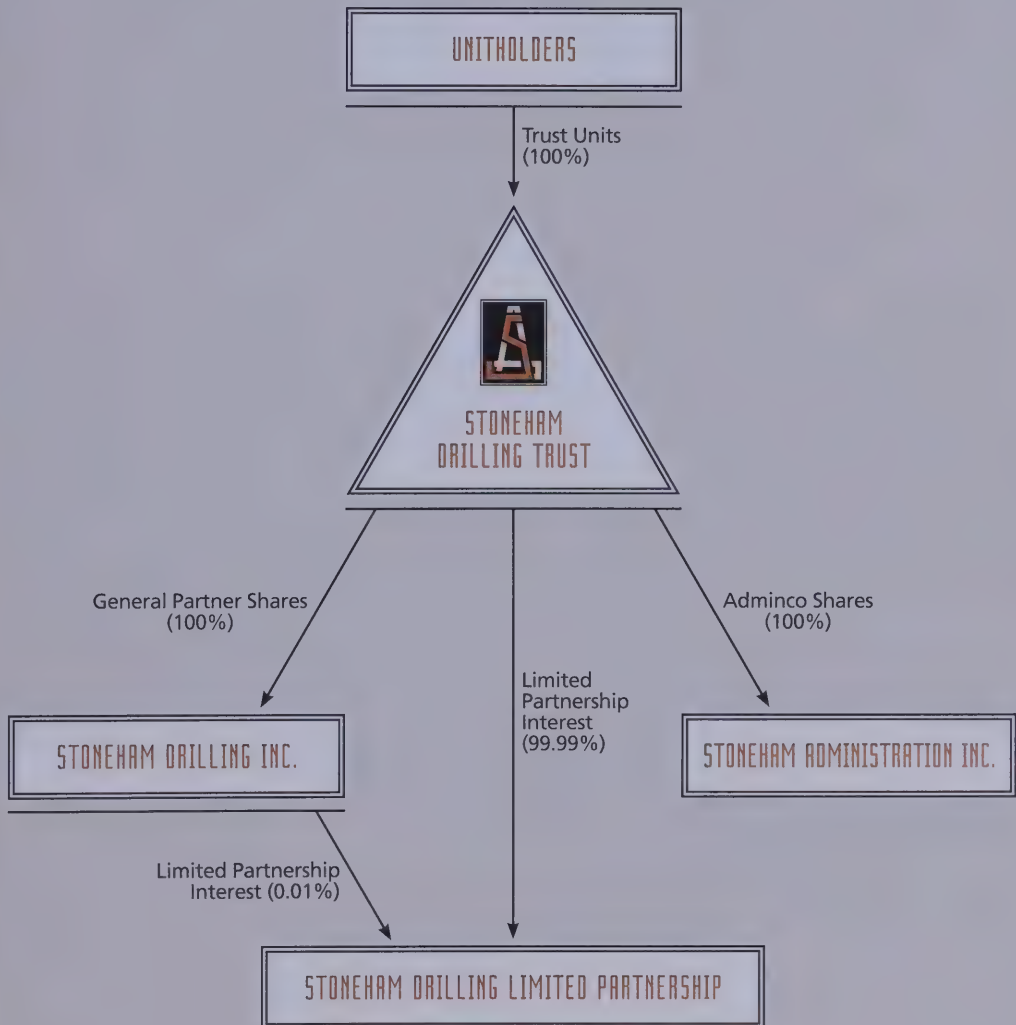
Written terms of reference have been established for the three key officer positions: President & Chief Executive Officer, Chief Financial Officer and Corporate Secretary. A formal CEO review process has also been established to measure the performance of the CEO against annual goals and objectives, financial and operating performance of the Trust, performance of the Trust against the strategic plan, and performance of the CEO and the Trust against the CEO's peers and other companies operating in the oil and gas drilling industry in western Canada. The Trust does not have an option plan for directors, officers or employees of Stoneham.

Stoneham has also adopted a code of business conduct and ethics, written policies on disclosure, communications and insider trading and a whistle blower policy.

Stoneham is committed to responsible corporate governance practices and has established written principles that provide the framework for the way in which governance is carried out.

TRUST STRUCTURE

Stoneham Drilling Trust owns a 99.99% interest in Stoneham Drilling Limited Partnership and holds 100% of the shares of Stoneham Drilling Inc. and 100% of the shares of Stoneham Administration Inc.





MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2004

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto of Stoneham Drilling Trust for the year ended December 31, 2004. The Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Throughout this report the term "Stoneham" has been used to refer to Stoneham Drilling Trust, its subsidiaries, Stoneham Drilling Limited Partnership, Stoneham Drilling Inc. and Stoneham Administration Inc and Seamans Drilling Inc. (a company related by common control), as the context requires.

This discussion provides Management's analysis of Stoneham's historical financial and operating results and provides estimates of Stoneham's future financial and operating performance based on information currently available. Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results to vary significantly from the results implied by such forward looking statements. Consequently readers should not place undue reliance on any forward looking statements. Readers should also be aware that historical results are not necessarily indicative of future performance.

The information in this management's discussion and analysis was prepared on March 29, 2005 and incorporates all relevant considerations to that date.

INTRODUCTION

Prior to July 2003, the business of Stoneham was conducted by Seamans Drilling Inc. ("Seamans Drilling"). On July 1, 2003, Seamans Drilling, as part of a corporate reorganization contributed all of its oil and gas drilling business to Stoneham Drilling Limited Partnership (the "Partnership"), in consideration for the assumption by the Partnership of the then existing liabilities of Seamans Drilling and the issuance by the Partnership to Seamans Drilling of limited partnership units and fixed notes. This gave Seamans Drilling a 99.99% interest in the Partnership and it was the sole limited partner in the Partnership. On July 29, 2003, Seamans Drilling sold the limited partnership units and fixed notes to Stoneham Drilling Trust (the "Trust") in exchange for units of the Trust, at which point the Trust became the sole limited partner of the Partnership. On December 15, 2004, the Trust acquired Stoneham Drilling Inc., the General Partner of the Partnership (the "General Partner"). The General Partner holds the remaining 0.01% interest in the Partnership.

OVERVIEW

The Trust is an open-ended, investment trust governed by the laws of the Province of Alberta pursuant to the Declaration of Trust. The Trust was established for the purpose of investing in property including the securities of the Partnership, the General Partner and Stoneham Administration Inc., the manager of the Trust. Valiant Trust Company (the "Trustee") is the Trustee of the Trust. The beneficiaries of the Trust are the holders of the trust units. The business of Stoneham involves the provision of contract drilling services to oil and natural gas exploration and production companies operating in western Canada.

SELECTED FINANCIAL INFORMATION

	Year ended, December 31, 2004	Year ended, December 31, 2003 (unaudited) (1)
\$ 000's except for per trust unit or per share amounts and trust units/shares outstanding		
Revenue	27,155	25,057
Net earnings	5,608	3,878
Per unit/share (basic)	1.99	1.32
Per unit/share (diluted)	1.74	1.19
Cash flow from operations	8,545	7,292
Per unit/share (diluted)	2.65	2.23
Total assets	36,361	30,781
Long term debt (2)	14,810	14,611
Weighted average units/shares outstanding		
Basic	2,822,801	2,932,798
Diluted	3,222,801	3,266,131
EBITDA (3)	9,340	8,469

(1) See 2003 Results on page 25.

(2) Long term debt includes obligations under capital lease, callable debt, long-term debt and amounts due to unitholders, including the current portion of each. It does not include future income taxes or non-controlling interest.

(3) EBITDA means earnings before interest, taxes, depreciation and amortization. Readers are cautioned that EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to other companies. However, Stoneham does compute EBITDA on a consistent basis for each reporting period.

HIGHLIGHTS

- Net earnings increased to \$5.6 million or \$1.74 per diluted trust unit for the year ended December 31, 2004 from \$3.9 million or \$1.19 per diluted trust unit for the year ended December 31, 2003. This increase is a result of activity and margin improvements, lower interest costs and elimination of corporate income taxes of Stoneham associated with the July 2003 reorganization.
- Cash flow from operations increased to \$8.5 million, \$2.65 per diluted trust unit for the year ended December 31, 2004 from \$7.3 million, \$2.23 per diluted trust unit for the year ended December 31, 2003. The additional cash flow was utilized for debt repayments, maintenance capital and strengthening working capital.
- Stoneham's rig utilization rate of 73% continued to be significantly higher than the industry average of 53%.
- In the fourth quarter of 2004, Stoneham entered into an agreement to construct two additional drilling rigs. Rig 7, a 4,000 metre telescopic triple rig commenced work in the field in February 2005 and construction of Rig 8, a 4,000 metre telescopic triple rig was completed in March 2005.
- Subsequent to Stoneham's year end, on January 6, 2005, Stoneham completed its initial public offering and commenced trading on the Toronto Stock Exchange under the symbol SDG.UN. The initial offering consisted of 1,666,667 trust units at \$12.00 per trust unit for gross proceeds of \$20.0 million. Proceeds from the offering were used or will be used to repay the demand construction facility, fund remaining construction costs for drilling Rigs 7 and 8, fund lease buy outs as they expire and for general working capital purposes.
- On March 3, 2005, the Trust announced that it had entered into a 'bought deal' financing agreement whereby the underwriters agreed to purchase 1,129,033 trust units for \$18.60 per trust unit for gross proceeds of \$21.0 million. The underwriters exercised their option to purchase an additional 53,763 trust units at \$18.60 per trust unit for additional gross proceeds of \$1.0 million. The offering closed on March 22, 2005. Proceeds from the offering will be used to partially fund the construction of three additional drilling rigs. The new rigs are expected to be completed in the fall of 2005.

OPERATIONAL HIGHLIGHTS

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
Operating days	1,599	1,560	3%
Utilization rate	72.8%	71.2%	2%
CAODC industry average	52.9%	53.1%	0%

In 2004, demand for drilling services remained strong as our clients continued to experience high commodity prices. Rig utilization improved to 73% for the year ended December 31, 2004 from 71% for the year ended December 31, 2003. Stoneham continues to operate at a significantly higher utilization rate compared to the industry average. Overall industry utilization remained constant at 53% in 2004. Excellent activity over the first six months of 2004 for both Stoneham and the industry were offset by significant third quarter reductions resulting primarily from wet weather conditions and resultant difficulties in location preparation and rig moves. Demand for Stoneham's proprietary pad rig moving system resulted in additional second quarter drilling days and was largely responsible for the increase in activity over 2003. We expect continued strength in commodity prices will result in strong rig utilization and anticipate that our utilization rate will continue to be higher than the industry average in 2005.

The Canadian drilling industry is seasonal with activity building over the summer and fall and peaking during the winter months as northern transportation routes become accessible. The peak Canadian drilling season ends with spring break-up, at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use). As warm weather returns in the spring many secondary roads are incapable of supporting the weight of heavy equipment until they have completely dried out. This spring break-up usually occurs in April and May and generally lasts from four to eight weeks.

Outlined below are the quarterly results for 2004 and 2003.

SELECTED QUARTERLY FINANCIAL INFORMATION

\$000's except per trust unit data and utilization	Three months ended December 31		Three months ended September 30		Three months ended June 30		Three months ended March 31	
	2004		2004		2004		2004	
	2004	2003	2004	2003	2004	2003	2004	2003
Revenue	7,758	7,307	5,225	6,476	6,028	3,605	8,144	7,668
Net earnings	1,938	1,654	523	1,118	1,096	(103)	2,051	1,209
Per Trust unit (basic)	0.69	0.59	0.19	0.40	0.39	(0.04)	0.73	0.36
Per Trust unit (diluted)	0.60	0.53	0.17	0.36	0.35	(0.04)	0.65	0.33
Cash flow from operations	2,715	2,405	1,138	1,888	1,808	768	2,884	2,231
Per Trust unit (diluted)	0.84	0.76	0.36	0.61	0.57	0.25	0.91	0.61
Utilization:								
Stoneham	82%	76%	61%	79%	63%	40%	85%	89%
Industry	62%	57%	47%	53%	30%	30%	74%	72%

FOURTH QUARTER OVERVIEW

Revenue for the fourth quarter of 2004 was \$7.8 million, an increase of 6% over the same period in 2003. Stoneham's operating days for the period were 454 compared to 422 in the fourth quarter of 2003. Stoneham's fourth quarter 2004 utilization rate of 82.2%, compared favourably to an industry utilization rate during the same period of 61.8%. Net earnings for the period were \$1.9 million, an increase of 16% over the \$1.7 million earned in 2003. Cash flow from operations was \$2.7 million, an increase of 12% over the \$2.4 million earned in the fourth quarter of 2003. The earnings and cash flow increase resulted from the

improved activity and stronger margins combined with lower interest costs. Stoneham's working capital position temporarily weakened during the quarter with the addition of \$6.7 million in callable debt associated with capital expenditures of \$5.6 million on partial construction of Rigs 7 and 8. Deposits of \$1.9 million associated with these rigs were incurred earlier in 2004. This debt was repaid in January 2005 following the initial public offering as described above.

REVENUE AND OPERATING EXPENSES

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
\$ 000's			
Revenue	27,155	25,057	8%
Operating expenses	16,045	14,770	9%

Revenue for the year ended December 31, 2004 increased 8% to \$27.2 million from \$25.1 million in 2003. The increase is attributable to the increase in activity, some real price increases based on the strength of rig demand and recoveries of specific cost increases and project costs. Revenue per operating day increased from \$16,062 per operating day in 2003 to \$16,982 per operating day in 2004.

Operating expenses increased to \$16.0 million or \$10,035 per operating day compared to \$14.8 million or \$9,468 per operating day in 2003. Operating expenses are mainly variable in nature and increased in part due to the increase in activity but also due to wage and burden increases, fuel cost increases, and increased maintenance and rig consumable expenses. The fixed cost component also increased with the addition of an operations superintendent during 2004 in anticipation of Rigs 7 and 8. We expect substantial increases in revenues and operating costs in 2005 with the additional rigs available. Operating margins are expected to remain strong along with the expected demand for our services.

GENERAL & ADMINISTRATIVE EXPENSES

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
\$ 000's			
General and administrative expenses	1,770	1,817	-3%

General and administrative expenses remained relatively constant for the year ended December 31, 2004 compared to 2003 levels. One time only charges in 2003 for the corporate reorganization caused 2003 costs to exceed those incurred in 2004. This was offset in part in 2004 by increased staffing levels and compensation increases. General and administrative expenses incurred are expected to increase in 2005, attributable to increased staffing levels to manage the growing business.

AMORTIZATION

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
Amortization	2,937	2,795	5%

Amortization of property, plant and equipment increased for the year ended December 31, 2004 to \$2.9 million from \$2.8 million for the year ended December 31, 2003. This is in line with activity increases as the majority of our assets are amortized on a unit-of-production basis. Also contributing to the increase was the amortization of project equipment acquired in both 2003 and 2004.

INTEREST EXPENSE

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
\$ 000's			
Interest expense	795	1,161	-32%

Interest on term and callable debt, including capital leases, decreased from \$1.1 million in 2003 to \$0.7 million in 2004. The reduction reflects the significant reduction in term debt levels during this period. Variable rate debt was also impacted in 2004 by a lower prime rate of interest. Other interest was largely unchanged.

Interest expense is expected to decrease in 2005 as a result of debt repayment with the proceeds of the announced equity issues in 2005.

INTEREST RATE RISK MANAGEMENT

Stoneham is exposed to fluctuations in interest rates on our floating rate callable debt. Stoneham manages interest rate risk by utilizing a mixture of fixed and floating rate debt.

INCOME TAXES

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
\$ 000's			
Current	-	17	-100%
Future	-	619	-100%

Following the reorganization in July 2003, the only income taxes were those incurred by the General Partner. The General Partner's results are only included in these results from December 15, 2004 and as a result no amounts for income taxes is recorded in 2004. The Trust does not recognize income tax expense as it distributes its taxable income to its unitholders.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, Stoneham's working capital deficiency was \$10.5 million, compared to a deficiency of \$8.9 million at December 31, 2003. The deficiencies in each year were the result of our highly leveraged balance sheet and the resultant callable debt, long-term debt and capital lease repayments required over the next year; \$6.3 million in 2004; \$7.7 million in 2003. The amounts were further impacted by the CICA guidelines relating to callable debt obligations, which results in amounts due on demand being treated as current liabilities even though repayment may not be expected during the next twelve months. This resulted in a further reduction to 2004 working capital of \$7.7 million, and \$3.9 million in 2003.

Term debt facilities were fully drawn at December 31, 2004 with the exception of a term line of \$15.8 million for the construction of drilling Rigs 7 and 8 (December 31, 2003 – \$nil). At December 31, 2004, \$6.7 million (December 31, 2003 – \$nil) had been drawn on the facility. Deposits to suppliers and construction costs relating to Rigs 7 and 8 incurred prior to December 31, 2004 were \$7.6 million.

At December 31, 2004, Stoneham had available to it an operating line facility of \$5.0 million of which \$1.9 million was drawn. At December 31, 2003, \$1.1 million was drawn on the facility. Subsequent to year end the operating facility was increased to \$7.5 million. At December 31, 2004, \$9.1 million (December 31, 2003 – \$nil) was available to be drawn under the Rig 7 and 8 construction term facility.

On January 6, 2005, Stoneham completed its initial public offering and began trading on the Toronto Stock Exchange. The offering consisted of 1,666,667 trust units at \$12.00 per trust unit resulting in gross proceeds of \$20.0 million. The proceeds of the offering were and will be used to reduce Stoneham's obligations, significantly improving the balance sheet. On March 22, 2005, Stoneham closed a 'bought deal'

financing whereby we issued 1,182,796 trust units at \$18.60 per trust unit for gross proceeds of \$22.0 million. Proceeds from the financing will be used to partially fund the construction of three new drilling rigs. The remainder of the construction costs are expected to be financed through additional credit facilities.

Contractual Obligations as at December 31, 2004 (6)	Payments Due by Period \$ 000's				
	Less than 1 Year	1 - 3 Years	4 - 5 Years	Thereafter	Total
Obligations under capital lease (1)	3,206	770	-	-	3,976
Callable debt (2)	2,897	3,455	2,698	562	9,612
Long-term debt (3)	188	-	-	-	188
Due to unitholders (4)	1,034	-	-	-	1,034
Operating lease commitments (5)	197	340	127	-	664
	7,522	4,565	2,825	562	15,474

(1) Obligations under capital leases are described in Note 7 to the audited consolidated financial statements.

(2) Callable debt obligations are described in Note 8 to the audited consolidated financial statements. At December 31, 2004 only \$6.7 million of the \$15.8 million committed was drawn relating to the construction of two 4,000 metre drilling rigs.

(3) Long-term debt obligations are described in Note 10 to the audited consolidated financial statements.

(4) Due to unitholders are described in Note 9 to the audited consolidated financial statements.

(5) Operating lease commitments are described in Note 16 to the audited consolidated financial statements.

(6) In addition to the contractual obligations above, Stoneham is committed to capital investments of approximately \$25.0 million relating to the construction of one 3,500 metre double drilling rig and two 4,000 metre triple drilling rigs.

DISTRIBUTIONS

As a private entity, Stoneham did not make any cash distributions in 2004 or 2003. In February 2005, Stoneham began monthly cash distributions of \$0.125 per trust unit (\$1.50 per trust unit per annum).

OPERATING ACTIVITIES

\$ 000's	Year ended December 31, 2004	Year ended December 31, 2003	% Change
Net earnings	5,608	3,878	45%
Cash flow from operations	8,545	7,292	17%

Net earnings increased 45% year over year to \$5.6 million in 2004 from \$3.9 million in 2003. Cash flow from operations increased 17%, to \$8.5 million, \$2.65 per diluted trust unit, for the year ended December 31, 2004 from \$7.3 million, \$2.23 per diluted trust unit for the year ended December 31, 2003. Both increases are a result of increased utilization rates, real price increases, and lower interest costs. Earnings in 2003 were also negatively impacted by future income tax expenses. Earnings and cash flow from operations are sensitive to the demand for Stoneham's services.

INVESTING ACTIVITIES

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
\$ 000's			
Capital expenditures	7,910	790	-901%

Capital expenditures in 2004 increased to \$7.9 million from \$0.8 million for the same period in 2003. The increase is attributable to costs incurred prior to year end for the construction of two drilling rigs. Construction of Rig 7 was completed in February 2005 and construction of Rig 8 was completed in March 2005. Capital expenditures in 2003 were mainly project costs, including Stoneham's proprietary pad rig moving system.

In conjunction with the bought deal financing announced March 3, 2005, the Trust has entered into agreements to construct one 3,500 metre telescopic double drilling rig and two 4,000 metre telescopic triple drilling rigs for an estimated cost of \$25.0 million.

FINANCING ACTIVITIES

	Year ended December 31, 2004	Year ended December 31, 2003	% Change
\$ 000's			
Net change in term debt (1)	199	(4,755)	104%
Change in capital	-	790	-100%

(1) Includes long-term debt, callable debt, capital leases and amounts due to unitholders.

Term debt repayments of \$6.6 million for the year ended December 31, 2004 were offset by \$6.7 million in additional financing drawn for the construction of two drilling rigs. Excluding the new financing, repayments were \$0.4 million greater than those for the same period in 2003, reflecting repayments on amounts borrowed in 2003. Term financing in 2003 included \$0.9 million to finance a common share redemption in Seamans Drilling and \$0.5 million associated with 2003 project capital. Changes in capital in 2003 included the issue of 62,800 common shares of Seamans Drilling.

At December 31, 2004 and 2003 the Trust had 2,822,801 trust units outstanding and 400,000 stock options. Subsequent to year end the Trust completed its initial public offering and issued 1,666,667 trust units at \$12.00 per trust unit for gross proceeds of \$20.0 million. Prior to the offering the stock options were exercised resulting in the issuance of 400,000 trust units. At the same time, the due to unitholders obligation was settled with the issuance of 84,297 trust units. On March 22, 2005, the Trust closed a 'bought deal' financing arrangement where it issued 1,182,796 trust units at \$18.60 per trust unit for gross proceeds of \$22.0 million. Proceeds from the initial public offering were used or will be used to repay the demand construction facility, fund remaining construction costs for Rigs 7 and 8, fund lease buy outs as they expire and for general working capital purposes. Proceeds from the issue announced on March 3rd are anticipated to partially fund the construction of three additional drilling rigs.

RISKS AND UNCERTAINTIES

The drilling industry is cyclical and the business of Stoneham is directly affected by fluctuations in the level of oil and natural gas exploration and development carried on by its customers. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors including weather, oil and natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices, economic activity or adverse change in government regulation could have a significant negative impact on exploration and development drilling in Canada. Stoneham emphasizes the continuous development of long-term relationships with a core of base customers who maintain ongoing drilling programs during all phases of the economic cycle.

The success of Stoneham also depends on other factors, including competition and the management of operational and environmental risks.

Stoneham manages its risks in these areas by:

- Employing well trained, experienced and responsible employees;
- Ensuring that all employees comply with clearly defined safety standards;
- Improving the skills of its employees through training programs;
- Reducing environmental risk through the implementation of industry-leading standards, policies and procedures;
- Maintaining an efficient fleet of rigs through a rigorous, ongoing, maintenance program constantly upgrading its rig fleet; and
- Maintaining comprehensive insurance policies with respect to its operations.

Stoneham is subject to federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from operating drilling rigs.

Stoneham maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. Stoneham's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit Stoneham's liability or provide for indemnification against certain risks. As a matter of policy, Stoneham ensures blowout insurance has been obtained by its customers and thereby reduces its related risks.

CRITICAL ACCOUNTING ESTIMATES

This Management's Discussion and Analysis is based on Stoneham's consolidated financial statements that have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are described in Note 2 to the consolidated financial statements. The preparation of the consolidated financial statements requires that certain estimates and judgments be made with regard to the reported amount of revenues and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management judgment. Anticipating future events involves uncertainty and consequently the estimate used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or Stoneham's operating environment changes.

AMORTIZATION

The accounting estimate that has the most significant impact on financial results of Stoneham is amortization. Amortization of Stoneham's property plant and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change impacting the operation of Stoneham's property and equipment.

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

Stoneham performs credit evaluations of its customers and grants credit based on past payment history, financial conditions and anticipated industry conditions. Stoneham has consistently mitigated risk by working mainly for large, financially sound oil and gas producers. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions. Stoneham's history of bad debt losses has been minimal and generally limited to specific customer circumstances, however given the cyclical nature of the oil and gas industry, the credit risks can change suddenly and without notice.

RECENT ACCOUNTING PRONOUNCEMENTS

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

Stoneham early adopted the recommendations of AcG-15 resulting in the consolidation of the Trust's financial statements with those of the Partnership, the variable interest entity ("VIE"). Historically, entities have been consolidated by an enterprise when it has a controlling financial interest through the ownership of a majority voting interest in the entity. AcG-15 is meant to apply to entities with a structure that precludes voting control but over which control may exist through other arrangements.

As the limited partner in the Partnership, the Trust does not have a majority voting interest in the Partnership. The majority voting interest is held by the General Partner, which was itself not controlled by the Trust until December 15, 2004. The Partnership is considered to be a VIE under AcG-15 and the Trust as the owner of all the partnership units and subordinated debt, receives 99.99% of the VIE's expected residual returns and would absorb 99.99% of its expected losses. As a result, the Trust is considered to be the primary beneficiary and must consolidate the VIE. AcG-15 was applied as though it was effective when the Trust first met the conditions to be the primary beneficiary of the Partnership, July 2003.

2003 RESULTS

The year end of the Trust, the Partnership and the General Partner is December 31. Previously Seamans Drilling had a year end of June 30. The financial information follows the continuity of interest method as if the business had always been in the Trust. This basis is intended to provide unitholders with meaningful comparative information. Therefore the 2003 comparative results include the unaudited results for the six months ended June 30, 2003 as reported by Seamans Drilling plus the audited results for the six months ended December 31, 2003 as reported by the Trust. The table below provides a summary.

	Stoneham Drilling Trust Six months ended December 31, 2003 audited	Seamans Drilling Inc. Six months ended June 30, 2003 unaudited	Combined Year ended December 31, 2003 unaudited
Revenue	\$ 13,783,194	\$ 11,273,352	\$ 25,056,546
Expenses			
Operating	8,220,365	6,549,910	14,770,275
Amortization	1,520,953	1,273,807	2,794,760
General and administrative	709,902	1,106,611	1,816,513
Interest on term and callable debt	504,453	569,112	1,073,565
Other interest	55,005	32,007	87,012
	11,010,678	9,531,447	20,542,125
Earnings before income tax and non-controlling interest	2,772,516	1,741,905	4,514,421
Current income tax	-	17,067	17,067
Future income tax	-	619,247	619,247
Earnings before non-controlling interest	2,772,516	1,105,591	3,878,107
Non-controlling interest	278	-	278
Net earnings	\$ 2,772,238	\$ 1,105,591	\$ 3,877,829
Cash flow from operations	\$ 4,293,469	\$ 2,998,645	\$ 7,292,114
Purchase of property, plant and equipment	\$ 90,000	\$ 700,013	\$ 790,013
Term and callable debt repayments	\$ 3,208,621	\$ 2,957,677	\$ 6,166,298
Term and callable debt financing	\$ 480,000	\$ 900,000	\$ 1,380,000
Changes in capital	\$ 109,900	\$ (900,000)	\$ (790,100)

FUTURE OUTLOOK

Continued strong commodity pricing in early 2005 results in expectations for 2005 of continued high demand for drilling services. The Canadian Association of Oilwell Drilling Contractors estimates an increase of 12% in the number of wells drilled in the Western Canadian Sedimentary Basin to 24,205 in 2005 from 21,593 wells drilled in 2004. With the addition of two new drilling rigs and planned construction of three later in the year, Stoneham is well positioned to participate in this growth. Overall, during 2004 the rig fleet operated by CAODC members grew by 8% from 660 to 715. Finding new reserves in the Western Canadian Sedimentary Basin is becoming increasingly challenging causing exploitation plans to be at deeper depths than we have experienced in the past. Stoneham's fleet of drilling rigs is designed to meet this challenge. The equity issues announced will provide us with a stronger balance sheet to participate in expected growth.

Provided that demand for our services remains strong, Stoneham expects financial results in 2005 to be improved over 2004 due to the increase in the size of our drilling fleet.

ADDITIONAL INFORMATION

Additional information relating to Stoneham, including the annual information form for the year ended December 31, 2004, may be found on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

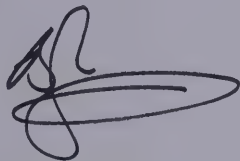
MANAGEMENT'S REPORT

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements and all information presented in this annual report. The statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) as described in Note 2 to the consolidated financial statements. The financial and operating information provided throughout this annual report has been reviewed to ensure consistency with the consolidated financial statements.

Management acknowledges responsibility for the integrity of its financial information. Where appropriate, management has made informed judgments and estimates in accounting for transactions that were not complete at the balance sheet date. Management maintains a system of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained.

Management has prepared Management's Discussion and Analysis, which is based on Stoneham's financial results prepared in accordance with Canadian GAAP. This discussion provides management's analysis of Stoneham's historical financial and operating results and provides estimates of Stoneham's future financial and operating performance based on information available to March 29, 2005.

The Board of Directors has appointed an Audit Committee that consists of three independent directors. The committee meets with management and Stoneham's external auditors, PricewaterhouseCoopers LLP, to discuss internal control, accounting policies and financial reporting matters. The Audit Committee has reviewed the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

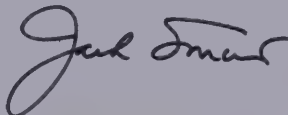


Bruce W. Jones

President and Chief Executive Officer

March 18, 2005

Calgary, Alberta



Jack M. Smart

Chief Financial Officer

AUDITORS' REPORT TO THE UNITHOLDERS OF STONEHAM DRILLING TRUST

We have audited the consolidated balance sheet of Stoneham Drilling Trust (the "Trust") as at December 31, 2004 and the consolidated statements of earnings and accumulated earnings and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative consolidated financial statements of the Trust as at December 31, 2003 and for the six-month period then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated May 31, 2004. The comparative financial statements as at and for the year ended June 30, 2003 are those of Seamans Drilling Inc., which was the predecessor entity to the Trust. Those financial statements were also audited by other auditors, who expressed an opinion without reservation on those financial statements in their report dated September 25, 2003.

PricewaterhouseCoopers LLP

Chartered Accountants

March 18, 2005

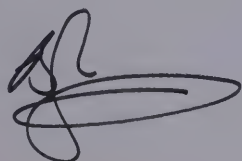
Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

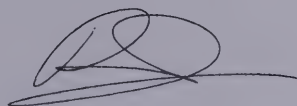
	December 31, 2004	December 31, 2003	June 30, 2003 (Note 1)
ASSETS			
Current			
Accounts receivable	\$ 7,004,954	\$ 6,817,388	\$ 3,758,438
Prepaid expenses	743,502	322,832	145,193
	7,748,456	7,140,220	3,903,631
Property, plant and equipment (Note 5)	28,612,991	23,640,413	25,063,517
	\$ 36,361,447	\$ 30,780,633	\$ 28,967,148
LIABILITIES			
Current			
Bank indebtedness (Note 6)	\$ 1,919,015	\$ 2,691,328	\$ 1,230,103
Accounts payable and accrued liabilities	2,286,986	1,742,889	1,636,398
Income taxes payable	3,733	-	66,065
Current portion of obligations under capital lease (Note 7)	3,205,919	4,850,188	3,660,311
Callable debt (Note 8)	9,612,020	4,977,040	5,532,050
Due to unitholders (Note 9)	1,034,529	1,010,137	985,411
Current portion of long-term debt (Note 10)	187,500	750,000	750,000
	18,249,702	16,021,582	13,860,338
Obligations under capital lease (Note 7)	769,877	2,836,202	5,824,689
Long-term debt (Note 10)	-	187,500	562,500
Future income taxes (Note 12)	-	-	2,473,114
Non-controlling interest	-	1,040	-
	19,019,579	19,046,324	22,720,641
Commitments (Note 16) and Contingencies (Note 17)			
UNITHOLDERS' EQUITY			
Unitholders' capital (Note 11)	8,962,071	8,962,071	1,254,732
Accumulated earnings	8,379,797	2,772,238	4,991,775
	17,341,868	11,734,309	6,246,507
	\$ 36,361,447	\$ 30,780,633	\$ 28,967,148

See accompanying notes to the consolidated financial statements

Approved by the Board



Bruce W. Jones
Director



Perry W. Jasson
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND ACCUMULATED EARNINGS

	Year ended December 31, 2004	Six months ended December 31, 2003	Year ended June 30, 2003 (Note 1)
REVENUE	\$ 27,155,003	\$ 13,783,194	\$ 20,553,853
EXPENSES			
Operating	16,045,232	8,220,365	11,629,351
Amortization	2,937,333	1,520,953	2,293,357
General and administrative	1,769,530	709,902	1,957,223
Interest on term and callable debt	720,156	504,453	1,220,088
Other interest	74,668	55,005	36,664
	21,546,919	11,010,678	17,136,683
Net earnings before income taxes	5,608,084	2,772,516	3,417,170
INCOME TAXES (Note 12)			
Current	-	-	62,627
Future	-	-	1,195,965
	-	-	1,258,592
Net earnings before non-controlling interest	5,608,084	2,772,516	2,158,578
Non-controlling interest	525	278	-
Net earnings	5,607,559	2,772,238	2,158,578
Accumulated earnings, beginning of period	2,772,238	-	3,460,429
Premium on redemption of capital stock	-	-	(627,232)
Accumulated earnings, end of period	\$ 8,379,797	\$ 2,772,238	\$ 4,991,775
Earnings per unit (Note 13)			
Basic	\$ 1.99	\$ 0.99	\$ 0.67
Diluted	\$ 1.74	\$ 0.88	\$ 0.62

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2004	Six months ended December 31, 2003	Year ended June 30, 2003 (Note 1)
OPERATING ACTIVITIES			
Net earnings for the period	\$ 5,607,559	\$ 2,772,238	\$ 2,158,578
Adjustments for items not affecting cash:			
Amortization	2,937,333	1,520,953	2,293,357
Future income taxes	-	-	1,195,965
Non-controlling interest	525	278	-
Cash flow from operations	8,545,417	4,293,469	5,647,900
Change in non-cash working capital (Note 14)	(61,972)	(3,070,699)	(2,539,921)
	8,483,445	1,222,770	3,107,979
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(7,909,911)	(90,000)	(727,566)
FINANCING ACTIVITIES			
Term and callable debt repayments	(6,570,613)	(3,208,621)	(4,956,481)
Term and callable debt financing	6,745,000	480,000	-
Redemption of capital stock	-	-	(900,000)
Trust unit issue	-	109,900	-
Accrued interest payable to Trust unitholders	24,392	24,726	30,723
	198,779	(2,593,995)	(5,825,758)
Increase (Decrease) in cash	772,313	(1,461,225)	(3,445,345)
Cash (Bank indebtedness), beginning of period	(2,691,328)	(1,230,103)	2,215,242
Bank indebtedness, end of period	\$ (1,919,015)	\$ (2,691,328)	\$ (1,230,103)

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, December 31, 2003 and June 30, 2003

1. STRUCTURE OF THE TRUST

Prior to July 2003 the business of the company was conducted by Seamans Drilling Inc. ("Seamans Drilling"). On July 1, 2003, as part of a corporate reorganization Seamans Drilling contributed all of its oil and gas drilling business to Stoneham Drilling Limited Partnership (the "Partnership") in consideration of the assumption by the Partnership of the then existing liabilities of Seamans Drilling and the issuance by the Partnership to Seamans Drilling of Limited Partnership units and fixed notes. This gave Seamans Drilling a 99.99% interest in the Partnership and it was the sole limited partner in the Partnership. On July 29, 2003 Seamans Drilling sold the Limited Partnership units and fixed notes to Stoneham Drilling Trust (the "Trust") in exchange for units of the Trust. The Trust was then the sole limited partner of Partnership. On December 15, 2004 the Trust acquired Stoneham Drilling Inc., general partner of the Limited Partnership ("the General Partner"). The General Partner holds the remaining 0.01% interest in the Partnership. The Partnership provides contract drilling services to oil and natural gas exploration and production companies in western Canada.

The year end of the Trust, the Partnership and the General Partner is December 31. Previously Seamans Drilling had a year end of June 30. Therefore for comparative purposes the audited consolidated financial results of the Trust for the six months ended December 31, 2003 and the audited financial results of Seamans Drilling for the year ended June 30, 2003 have been presented.

The Trust is an open-end, investment trust governed by the laws of the Province of Alberta pursuant to the Declaration of Trust. The Trust was established for the purpose of investing in property including the securities of the Partnership, the General Partner and Stoneham Administration Inc., the manager of the Trust. Valiant Trust Company (the "Trustee") is the Trustee of the Trust. The beneficiaries of the Trust are the holders of the trust units.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management following Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Trust and all of its subsidiaries. The Trust has chosen early adoption of Accounting Guideline 15, Consolidation of Variable Interest Entities; see Note 3 Changes in Accounting Policies.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost.

Drilling rig equipment is amortized using the unit-of-production method based on 3,200 drilling days, except for drill pipe and collars and rig manager quarters, which are amortized over 1,500 drilling days. Rigs under construction are not subject to amortization.

Spare pumps are amortized using the unit-of-production method based on 2,500 drilling days.

Equipment acquired for specific contracts is amortized over the term of the contract to its estimated residual value.

Equipment and office furniture are amortized using the declining balance method at an annual rate of 30%. In the year of acquisition one-half of this rate is used.

INCOME TAXES

A provision for income taxes has not been made in the consolidated financial statements, as the unitholders are responsible for income taxes on their share of income from the Trust. Stoneham Drilling Inc., general partner, is subject to tax on its earnings.

REVENUE RECOGNITION

Services are generally sold based upon contracts with the customer that includes fixed or determinable prices based upon daily or hourly rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when service is rendered and only when collectability is reasonably assured.

LEASES

Leases are classified as either capital or operating leases. A lease that transfers substantially all benefits and risks incidental to the ownership of property is classified as property, plant and equipment. All other leases are accounted for as operating leases where rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. Assets recorded as a capital lease are amortized in accordance with the property plant and equipment policy above.

STOCK-BASED COMPENSATION

Effective January 1, 2004, the Trust was required to retroactively apply the fair value method to all options granted in 2002 and subsequent years. No compensation expense has been recognized as no new options have been granted since January 1, 2002.

PER UNIT AMOUNTS

Basic per unit amounts are calculated using the weighted average number of units outstanding during the year. Diluted earnings per unit are calculated using the treasury stock method to determine the dilutive effects of stock options. The treasury method assumes that proceeds from the exercise of "in-the-money" unit options are used to re-purchase units at the prevailing market rate.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

3. CHANGES IN ACCOUNTING POLICIES

Adoption of Accounting Guideline 15 – Consolidation of Variable Interest Entities ("AcG-15")

During the fourth quarter, the Trust has early adopted the recommendations of AcG-15 resulting in the consolidation of the Trust's financial statements with those of the Partnership, the variable interest entity ("VIE"). Historically, entities have been consolidated by an enterprise when it has a controlling financial interest through the ownership of a majority voting interest in the entity. AcG-15 is meant to apply to entities with a structure that precludes voting control but over which control may exist through other arrangements.

As the limited partner in the Partnership, the Trust does not have a majority voting interest in the Partnership. The majority voting interest is held by the General Partner, which was itself not controlled by the Trust until December 15, 2004. The Partnership is considered to be a VIE under AcG-15 and the Trust as the owner of all the partnership units and subordinated debt, receives 99.99% of the VIE's expected residual returns and would absorb 99.99% of its expected losses. As a result, the Trust is considered to be the primary beneficiary and must consolidate the VIE.

4. BUSINESS ACQUISITION

On July 1, 2003, Seamans Drilling a company related by common control, transferred all of its oil and gas drilling business assets in a series of transactions involving the Partnership to the Trust in exchange for assumption of debt and 2,822,800 trust units.

The acquisition was accounted for using the continuity of interest method. The assets and liabilities of Seamans Drilling were recorded at their carrying amount as at the transaction date and are treated as if they were always held by the Partnership.

The allocation of the total purchase price is as follows:

Assets

Accounts receivable	\$ 3,825,682
Property, plant and equipment	25,063,517
Prepays	145,193
	<u>29,034,392</u>

Liabilities

Bank indebtedness	1,230,103
Accounts payable	1,636,398
Callable and term debt	17,314,961
	<u>20,181,462</u>

Net assets	\$ 8,852,930
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5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2004	Cost	Accumulated Amortization	Net Book Value
Drilling rigs and ancillary equipment	\$ 15,264,944	\$ 5,298,658	\$ 9,966,286
Drilling rigs under construction	7,556,937	-	7,556,937
Drilling rigs and ancillary equipment under capital lease	14,338,424	3,364,228	10,974,196
Office furniture and equipment	199,712	84,140	115,572
	<u>\$ 37,360,017</u>	<u>\$ 8,747,026</u>	<u>\$ 28,612,991</u>

December 31, 2003	Cost	Accumulated Amortization	Net Book Value
Drilling rigs and ancillary equipment	\$ 14,986,342	\$ 3,595,087	\$ 11,391,255
Drilling rigs under construction	-	-	-
Drilling rigs and ancillary equipment under capital lease	14,338,424	2,161,801	12,176,623
Office furniture and equipment	123,460	50,925	72,535
	<u>\$ 29,448,226</u>	<u>\$ 5,807,813</u>	<u>\$ 23,640,413</u>

June 30, 2003	Cost	Accumulated Amortization	Net Book Value
Drilling rigs and ancillary equipment	\$ 14,917,342	\$ 2,731,626	\$ 12,185,716
Drilling rigs under construction	-	-	-
Drilling rigs and ancillary equipment under capital lease	14,338,424	1,521,782	12,816,642
Office furniture and equipment	102,460	41,301	61,159
	<u>\$ 29,358,226</u>	<u>\$ 4,294,709</u>	<u>\$ 25,063,517</u>

6. BANK INDEBTEDNESS

The Trust has an authorized operating loan of \$5,000,000 at December 31, 2004 (December 31, 2003 – \$3,750,000, June 30, 2003 – \$3,750,000), subject to margin requirements, at a rate of prime plus 0.75%. The bank indebtedness is secured by a general security agreement and the assignment to the bank of all risk insurance.

Subsequent to year end on January 15, 2005 the authorized limit was increased to \$7,500,000 and a second demand operating facility was granted in the amount of \$2,000,000 at a rate of prime plus 1.00%.

7. OBLIGATIONS UNDER CAPITAL LEASE

The Trust has the following obligations under capital lease:

	December 31, 2004	December 31, 2003	June 30, 2003
HSBC Bank Canada agreement bearing interest at 6.38% repayable at \$113,497 per month principal and interest and a buy out value of \$1,175,000 in December 2004	\$ -	\$ 2,312,033	\$ 2,908,080
HSBC Bank Canada agreement bearing interest at 7.18% repayable at \$110,269 per month principal and interest and a buy out value of \$1,122,106 in March 2005	1,320,776	2,502,741	3,062,749
HSBC Bank Canada agreement bearing interest at 7.18% repayable at \$115,467 per month principal and interest and a buyout value of \$1,175,000 in March 2005	1,383,030	2,620,711	3,207,117
HSBC Bank Canada agreement bearing interest at 7.18% repayable at \$11,056 per month principal and interest and a buyout value of \$112,500 in March 2005	132,396	250,905	307,054
HSBC Bank Canada agreement bearing interest at 5.68% repayable at \$35,406 per month principal and interest and a buyout value of \$100 in December 2007	1,139,594	-	-
	3,975,796	7,686,390	9,485,000
Less current portion	3,205,919	4,850,188	3,660,311
	\$ 769,877	\$ 2,836,202	\$ 5,824,689

Total payments of obligations under capital leases are as follows:

	Principal	Interest	Total
2005	\$ 3,205,919	\$ 102,143	\$ 3,308,062
2006	391,251	33,621	424,872
2007	378,626	10,940	389,566
	\$ 3,975,796	\$ 146,704	\$ 4,122,500

8. CALLABLE DEBT

Callable Debt is comprised of the following:

	December 31, 2004	December 31, 2003	June 30, 2003
HSBC Bank Canada demand term loan bearing interest at prime plus 1% repayable at \$120,000 per month principal only, maturing March 2006	\$ 1,800,000	\$ 3,240,000	\$ 3,960,000
HSBC Bank Canada demand term loan bearing interest at prime plus 1% repayable at \$15,425 per month principal only, maturing February 2006	215,900	401,000	493,550
HSBC Bank Canada demand term loan bearing interest at prime plus 1% repayable at \$5,410 per month principal only, maturing March 2006	81,120	146,040	178,500
HSBC Bank Canada demand term loan bearing interest at prime plus 1% repayable at \$25,000 per month principal only, maturing June 2006	450,000	750,000	900,000
HSBC Bank Canada demand term loan bearing interest at prime plus 1% repayable at \$10,000 per month principal only, maturing August 2007	320,000	440,000	-
HSBC Bank Canada demand term rig construction loan bearing interest at prime plus 1.25% repayable over 60 months commencing on the first day of the month following the 60 day period after the final drawdown	6,745,000	-	-
	\$ 9,612,020	\$ 4,977,040	\$ 5,532,050

The HSBC Bank Canada Loans are secured by a general security agreement as described in Note 6 Bank Indebtedness.

Principal repayments on the callable debt in each of the next five fiscal years are as follows:

2005	\$ 2,896,937
2006	2,026,004
2007	1,429,004
2008	1,349,004
2009	1,349,004
Thereafter	562,067
	\$ 9,612,020

9. DUE TO UNITHOLDERS

At December 31, 2004, \$1,034,529 (December 31, 2003 – \$1,010,137, June 30, 2003 – \$985,411) of secured subordinated promissory demand notes due to certain unitholders of the Trust were outstanding. The promissory notes are unsecured, due on demand, subordinate to obligations to HSBC Bank Canada and bear interest at prime plus 1%. During the year ended December 31, 2004, the Trust recognized interest expense of \$43,796 (six months ended December 31, 2003 – \$24,726, year ended June 30, 2003 – \$49,208).

Subsequent to year end and prior to the initial public offering described in Note 19, the debt was settled with the issuance of 84,297 trust units.

10. LONG-TERM DEBT

The Trust holds a debenture, subordinate to HSBC Bank Canada. The debenture bears interest at prime rate and is repayable at \$187,500 per quarter principal only, maturing February 2005.

	December 31, 2004	December 31, 2003	June 30, 2003
Balance outstanding	\$ 187,500	\$ 937,500	\$ 1,312,500
Less current portion	187,500	750,000	750,000
	\$ -	\$ 187,500	\$ 562,500

11. UNITHOLDERS' CAPITAL

The Trust is authorized to issue an unlimited number of trust units. At December 31, 2004, 2,822,801 (December 31, 2003 – 2,822,801) voting participating units were issued and outstanding. At June 30, 2003, 2,760,000 common redeemable voting shares were issued and outstanding.

Issued and Outstanding Trust Units

	December 31, 2004		December 31, 2003	
	Number of Trust Units	\$	Number of Trust Units	\$
Balance, end of period	2,822,801	8,962,071	2,822,801	8,962,071

	June 30, 2003	
	Number of Common Shares	\$
Balance, end of period	2,760,000	1,254,732

At June 30, 2003, Seamans Drilling Inc. had authorized an unlimited number of Class A common redeemable voting shares of which 2,760,000 Class A common shares were issued for \$1,254,732. During the year ended June 30, 2003, Seamans Drilling redeemed 600,000 Class A common shares at \$1.50 per share for \$900,000 and cancelled the Class B common shares, and the Class C,D,E and F preferred shares of which there were no issued or outstanding shares.

During the six months ended December 31, 2003, Seamans Drilling issued 62,800 Class A common shares at \$1.75 per share for consideration of \$109,900.

An executive officer of the Trust has 400,000 options at an exercise price of \$0.50 that expire August 14, 2008. These options were granted pursuant to a long-term incentive plan established prior to January 2002 in Seamans Drilling and extended to the Trust upon reorganization. Subsequent to year end and prior to the initial public offering described in Note 19, the options were exercised.

12. INCOME TAXES

The income tax provision differs from that which would be computed using the statutory rates. A reconciliation of the differences is as follows:

	Year ended December 31, 2004	Six months ended December 31, 2003	Year ended June 30, 2003
Earnings before income taxes	\$ 5,608,084	\$ 2,772,516	\$ 3,417,170
Statutory tax rate	35.00%	35.50%	36.00%
Expected income tax at statutory rate	1,962,829	984,243	1,230,181
Add (Deduct):			
Permanent differences	14,167	8,147	43,130
Prior year recovery	-	-	(3,438)
Distributions to unitholders	(1,976,996)	(992,390)	-
Other	-	-	(11,281)
Income tax provision	\$ -	\$ -	\$ 1,258,592

The net future tax liability is comprised of the tax effect of the following temporary differences:

	December 31, 2004	December 31, 2003	June 30, 2003
Capital assets	\$ -	\$ -	\$ 7,306,564
Other	-	-	(264,668)
	-	-	7,041,896
Expected future tax rate	35.0%	35.5%	35.1%
Future income taxes at expected rate	\$ -	\$ -	\$ 2,473,114

13. EARNINGS PER UNIT

The earnings per trust unit amounts for 2004 were calculated based on the weighted average number of units outstanding of 2,822,801 (December 31, 2003 – 2,812,562, June 30 2003 – 3,208,767 common shares). For the year ended December 31, 2004, the calculated additional diluted units are 400,000 (six months ended December 31, 2003 – 333,333, year ended June 30, 2003 – 285,714) due to the dilutive impact of options outstanding.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	December 31, 2004	December 31, 2003	June 30, 2003
(Increase) in current assets			
Accounts receivable	\$ (187,566)	\$ (2,988,206)	\$ (3,185,200)
Prepaid expenses	(420,670)	(185,488)	(28,385)
Increase in current liabilities			
Accounts payable and accrued liabilities	542,531	102,995	1,234,200
Income taxes payable	3,733	-	(560,536)
	\$ (61,972)	\$ (3,070,699)	\$ (2,539,921)
Interest paid	\$ 752,822	\$ 539,324	\$ 1,231,603
Income taxes paid	\$ -	\$ -	\$ 625,386

15. SIGNIFICANT CUSTOMERS

During 2004, three (six months ended December 31, 2003 – four, year ended June 30, 2003 – three) customers each provided more than 10% of the Trust's revenue. In management's assessment, the future viability of the Trust is not dependent upon any one of these major customers.

16. COMMITMENTS

The Trust has several operating lease agreements on office space and vehicles. The future lease obligations for the next five years are summarized below:

2005	\$	196,690
2006		214,925
2007		125,216
2008		63,544
2009		62,567

The Trust is committed to the construction of two additional drilling rigs. The estimated cost of the rigs is \$15,770,000 of which \$7,556,937 has been incurred to December 31, 2004. The Trust has entered into an agreement with HSBC Bank Canada to finance 100% of the cost of these rigs. At December 31, 2004, \$6,745,000 had been drawn. Subsequent to year end the full amount was repaid with the proceeds from the initial public offering described in Note 19.

In conjunction with the bought deal financing announced on March 3, 2005, the Trust entered into contracts to purchase three additional drilling rigs for an estimated cost of \$25 million. The rigs are expected to be financed with the proceeds of the equity financing and through additional credit facilities.

17. CONTINGENCIES

On the June 30, 2003, corporate tax return of Seamans Drilling a reduction of income subject to income taxes was claimed relating to corporate reorganization costs. The corporate tax return was reviewed by Canada Revenue Agency and reassessed on the basis that that these costs are not fully deductible in the year they were incurred but are eligible capital property, of which 75% of the reorganization costs incurred are considered to be cumulative eligible capital and a reduction of 7% may be claimed on an annual basis. Based on this, the Trust would pay an estimated \$148,000 plus interest and penalties. However, it is management's view that the reorganization costs are an allowable deduction and therefore no provision for the estimated tax owing has been recorded in the financial statements. Under the terms of the purchase agreement between the Partnership and Seamans Drilling, the Partnership assumed all of the liabilities of Seamans Drilling. Accordingly, if unsuccessful the amount above would be shown as an expense on the statement of earnings.

18. FINANCIAL INSTRUMENTS

The Trust's financial instruments recognized on the consolidated balance sheets include accounts receivable, current liabilities, and capital leases. The carrying value of the financial instruments approximates their fair value.

The Trust is exposed to credit risk due to the potential non-performance of counter parties to the above financial instruments. The Trust mitigates this risk by dealing mainly with larger, well established companies and with a major national chartered bank.

The Trust's exposure to interest rate risk lies in its bank indebtedness, term and callable debt. Interest is calculated at prime to prime plus 1.25% per annum. The prime interest rate is subject to change.

19. SUBSEQUENT EVENTS

Subsequent to year end, on January 6, 2005, the Trust completed its initial public offering and began trading on the Toronto Stock Exchange. The initial public offering consisted of 1,666,667 trust units at \$12.00 per unit for gross proceeds of \$20.0 million. Proceeds from the offering were used or will be used to repay the demand construction facility, fund the remaining costs for drilling Rigs 7 and 8, fund lease buy outs as they expire and for general working capital purposes.

On March 3, 2005, the Trust announced that it has entered into a bought deal financing agreement where the underwriters have agreed to purchase 1,129,033 trust units for \$18.60 per trust unit resulting in gross proceeds of \$21.0 million. The underwriters have exercised their option to purchase an additional 53,763 trust units at \$18.60 per trust unit, bringing the total issue proceeds to \$22.0 million. The offering closed on March 22, 2005. Proceeds from the offering will be used to partially fund the construction of three additional drilling rigs and for general working capital purposes.



Rig 2 – Turner Valley, Alberta

TRUST INFORMATION

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Bruce W. Jones
DeWinton, Alberta

J. Wayne Thomas ⁽²⁾
Calgary, Alberta

(1) Chairman of the Board

(2) Member of the Audit Committee

(3) Member of the Compensation Committee

(4) Member of the Governance Committee

(5) Member of the Governance and Compensation Committee

OFFICERS

Bruce W. Jones
President and Chief Executive Officer

Jack M. Smart, CA
Chief Financial Officer

J. Scott Bodie
Corporate Secretary

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ANNUAL MEETING

2:00 p.m., Thursday, June 16, 2005
Calgary Petroleum Club
319 – 5th Avenue S.W.
Calgary, Alberta T2P 0L5



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